



Trade and Agriculture **What's at Stake for Kentucky?**

U.S. Department of Agriculture
Foreign Agricultural Service
October 2001

Kentucky is an important producer and exporter of agricultural products. In 2000, the State's cash farm receipts totaled \$3.6 billion. Kentucky ranked 20th among all 50 States in 2000 with agricultural exports estimated at \$828 million. These exports help boost farm prices and income, while supporting about 11,840 jobs both on the farm and off the farm in food processing, storage, and transportation. Exports are important to Kentucky's agricultural and statewide economy. Measured as exports divided by farm cash receipts, the State's reliance on agricultural exports was 23 percent in 2000.

Kentucky's top five agricultural exports in 2000 were:

- # tobacco leaf -- \$270 million
- # live animals and red meats -- \$258 million
- # feed grains and products -- \$80 million
- # soybeans and products -- \$61 million
- # wheat and products -- \$49 million

World demand for these products is increasing, but so is competition among suppliers. If Kentucky's farmers, ranchers, and food processors are to compete successfully for the export opportunities of the 21st century, they need *fair trade* and *more open access* to growing global markets.

Kentucky Benefits From Trade Agreements

Kentucky is already benefitting from a number of agricultural trade agreements. While there is still much to be done, examples of market opportunities for Kentucky include:

- # Kentucky, the nation's second largest tobacco producer, benefitted under the Uruguay Round agreement because major importers moved to progressively reduce tariffs on tobacco products. The European Union and Japan reduced their tariffs by 2000, and Turkey is reducing its import duties by 2004. Supported by lower tariffs, U.S. total leaf exports to Turkey rose from \$60 million in 1995 to \$86 million in 2000.

In February 2001, the Protocol on Tobacco Blue Mold was signed with China lifting that country's longstanding ban on leaf imports from the United States. This agreement paves the way for expanded U.S. flue-cured and burley sales to China that the tobacco industry believes could grow to \$140 million by 2003/04.

- # Kentucky benefitted as Japan reduced its tariffs on chilled and frozen beef to 38.5 percent, a move that exceeded its Uruguay Round commitment. This was important, as Kentucky gets a large portion of its farm receipts from the cattle industry. Japan's imports of U.S. beef rose from 274,000 tons valued at \$1.3 billion in 1994 to 368,000 tons worth \$1.5 billion in 2000. South Korea eliminated its chilled and frozen beef import quotas in 2001, and will reduce its tariffs to 40 percent by 2004. Supported in part by these changes, South Korea's imports of U.S. beef rose from 60,000 tons valued at \$227 million in 1994 to 143,000 tons worth \$506 million in 2000.
- # Kentucky benefitted under the North American Free Trade Agreement when Mexico converted its import licensing system for corn to a transitional tariff rate quota that will remain in effect until 2008. Under this system, the volume of U.S. corn exports to Mexico has nearly tripled since 1994, reaching 197 million bushels valued at \$486 million in 2000. Under the Uruguay Round agreement, the Philippines converted its import ban on corn to tariffs. This change helped support additional demand for 51 million bushels of U.S. corn from 1995 to 2000.
- # Kentucky benefits under the Uruguay Round agreement as South Korea reduces its tariffs on soybean oil by 14.5 percent from 1995 to 2004. The tariff reduction has supported a threefold increase in export volume, with total sales reaching \$32 million in 2000. The Philippines is reducing its tariffs on soybean meal from 10 to 3 percent during the same period. This tariff reduction has supported a 40-percent increase in U.S. soybean meal exports that topped \$160 million in 2000.
- # Kentucky benefitted from limits set on subsidized wheat exports as a result of the Uruguay Round agreement. These limits influenced the European Union's decision to change its Common Agricultural Policy, ultimately lowering internal EU market prices to world price levels. As a result, annual EU wheat exports dropped from 22 million tons to about 14 million tons as lower market prices stimulated domestic use, and annual EU wheat imports jumped from 1.5 million tons to 4.5 million tons as the levied margin of protection fell. This translates to an 11-percent reduction in global export competition and a 3-million-ton increase in the EU market, half of which is supplied by the United States.

Under the North American Free Trade Agreement, Mexico eliminated import licensing for wheat and is phasing out tariffs. Since 1994, average annual U.S. wheat exports to Mexico have more than doubled, from 20 million bushels to nearly 50 million bushels. In 2000, exports reached 66 million bushels valued at \$200 million.